

BARRACUDA NETWORKS INC

Form 10-Q

October 11, 2016

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 001-36162

BARRACUDA NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3175 S. Winchester Blvd.

Campbell, California 95008

(408) 342-5400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock outstanding as of September 30, 2016 was 52,303,252.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I—FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
Item 4. <u>Controls and Procedures</u>	<u>31</u>
<u>PART II—OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>33</u>
Item 1A. <u>Risk Factors</u>	<u>33</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>34</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>34</u>
Item 5. <u>Other Information</u>	<u>34</u>
Item 6. <u>Exhibits</u>	<u>34</u>

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect" and the negative and plural forms of these words and similar expressions are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross profit or gross margin, operating expenses, including changes in research and development, sales and marketing and general and administrative expenses, and our ability to achieve and maintain future profitability;
- our business plan and our ability to effectively manage our growth and associated investments;
- anticipated trends, growth rates and challenges in our business and in the markets in which we operate;
- market acceptance of recently introduced security and data protection solutions;
- beliefs about and objectives for future operations;
- our ability to increase sales of our solutions and renewals of our subscriptions;
- our ability to attract and retain customers;
- our ability to cross-sell to our existing customers;
- maintaining and expanding our customer base and our relationships with our channel partners;
- our ability to timely and effectively scale and adapt our existing solutions;
- our ability to develop new solutions and bring them to market in a timely manner;
- our ability to maintain, protect and enhance our brand and intellectual property;
- our ability to continue to expand internationally;
- the effects of increased competition in our markets and our ability to compete effectively;
- sufficiency of cash to meet cash needs for at least the next 12 months;
- future acquisitions or investments;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally;
- economic and industry trends or trend analysis;
- the attraction and retention of qualified employees and key personnel;
- the estimates and estimate methodologies used in preparing our consolidated financial statements;
- the impact of our stock repurchase program; and
- the future trading prices of our common stock.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs; however, these forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016. Moreover, we operate in a very competitive and rapidly changing environment and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC as exhibits to this Quarterly

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Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Unless expressly indicated or the context requires otherwise, the terms "Barracuda," "company," "we," "us," and "our" in this document refer to Barracuda Networks, Inc., a Delaware corporation, and, where appropriate, its wholly owned subsidiaries. The term "Barracuda" may also refer to our products, regardless of the manner in which they are accessed.

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

BARRACUDA NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	As of August 31, 2016	As of February 29, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 139,173	\$ 118,654
Marketable securities	40,410	36,394
Accounts receivable, net of allowance for doubtful accounts of \$2,502 and \$2,018 as of August 31, 2016 and February 29, 2016, respectively	34,028	36,520
Inventories, net	5,746	5,648
Prepaid income taxes	5,396	7,645
Deferred costs	32,049	31,943
Other current assets	5,466	4,805
Total current assets	262,268	241,609
Property and equipment, net	30,272	31,910
Deferred costs, non-current	26,782	27,019
Deferred income taxes, non-current	2,867	2,992
Other non-current assets	7,970	7,293
Intangible assets, net	35,660	39,386
Goodwill	70,163	69,595
Total assets	\$ 435,982	\$ 419,804
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	\$ 9,429	\$ 15,939
Accrued payroll and related benefits	13,587	12,371
Other accrued liabilities	17,935	19,495
Deferred revenue	240,813	235,411
Note payable	4,251	268
Total current liabilities	286,015	283,484
Long-term liabilities:		
Deferred revenue, non-current	158,065	157,363
Deferred income taxes, non-current	2,762	2,478
Note payable, non-current	—	4,115
Other long-term liabilities	4,901	4,462
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized; zero shares issued and outstanding as of August 31, 2016 and February 29, 2016, respectively	—	—
Common stock, \$0.001 par value; 1,000,000,000 shares authorized; 52,270,294 and 52,135,194 shares issued and outstanding as of August 31, 2016 and February 29, 2016, respectively	52	52
Additional paid-in capital	353,352	337,439
Accumulated other comprehensive loss	(5,245) (4,509

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Accumulated deficit	(363,920)	(365,080)
Total stockholders' deficit	(15,761)	(32,098)
Total liabilities and stockholders' deficit	\$435,982	\$ 419,804
See accompanying notes.		

4

Table of Contents

BARRACUDA NETWORKS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share data)
 (unaudited)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2016	2015	2016	2015
Revenue:				
Appliance	\$21,034	\$22,288	\$42,367	\$45,970
Subscription	66,896	56,083	132,217	110,375
Total revenue	87,930	78,371	174,584	156,345
Cost of revenue	20,240	15,935	40,481	31,901
Gross profit	67,690	62,436	134,103	124,444
Operating expenses:				
Research and development	18,446	17,502	37,653	35,502
Sales and marketing	32,144	34,470	63,474	68,602
General and administrative	10,969	10,770	21,741	21,468
Total operating expenses	61,559	62,742	122,868	125,572
Income (loss) from operations	6,131	(306)	11,235	(1,128)
Other income (expense), net	1,515	97	2,505	(471)
Income (loss) before income taxes	7,646	(209)	13,740	(1,599)
Provision for income taxes	(5,209)	(2,030)	(8,519)	(4,472)
Net income (loss) (Note 9)	\$2,437	\$(2,239)	\$5,221	\$(6,071)
Net income (loss) per share:				
Basic	\$0.05	\$(0.04)	\$0.10	\$(0.11)
Diluted	\$0.05	\$(0.04)	\$0.10	\$(0.11)
Weighted-average shares used to compute net income (loss) per share:				
Basic	52,265	53,270	52,275	53,133
Diluted	53,321	53,270	53,088	53,133
See accompanying notes.				

Table of Contents

BARRACUDA NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months		Six Months	
	Ended August 31,		Ended August 31,	
	2016	2015	2016	2015
Net income (loss)	\$2,437	\$(2,239)	\$5,221	\$(6,071)
Other comprehensive income (loss), net of tax:				
Change in net foreign currency translation adjustment	(708)	375	(374)	324
Available-for-sale investments:				
Change in net unrealized gains (losses) (net of tax effect of \$0, \$0, \$0 and \$0)	(240)	(733)	370	1,122
Less: reclassification adjustment for net gains (losses) included in net income (loss) (net of tax effect of \$247, \$0, \$394 and \$1)	(459)	1	(732)	(2)
Net change	(699)	(732)	(362)	1,120
Other comprehensive income (loss)	(1,407)	(357)	(736)	1,444
Comprehensive income (loss)	\$1,030	\$(2,596)	\$4,485	\$(4,627)
See accompanying notes.				

Table of Contents

BARRACUDA NETWORKS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)
 (unaudited)

	Six Months Ended August 31,	
	2016	2015
Operating activities		
Net income (loss)	\$5,221	\$(6,071)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and impairment expense	8,467	4,469
Stock-based compensation expense	15,833	13,710
Excess tax benefits from equity compensation plans	(791)	(3,260)
Deferred income taxes	474	239
Other	(728 )	) 670
Changes in operating assets and liabilities:		
Accounts receivable, net	2,732	(2,143)
Inventories, net	(83 )	) (1,125)
Income taxes, net	3,598	4,019
Deferred costs	340	(2,284)
Other assets	(575 )	) (933)
Accounts payable	(6,679 )	) 2,225
Accrued payroll and related benefits	1,126	2,298
Other liabilities	(762 )	) 53
Deferred revenue	4,456	16,752
Net cash provided by operating activities	32,629	28,619
Investing activities		
Purchases of marketable securities	(21,777 )	) (14,240)
Proceeds from the sale of marketable securities	10,294	7,177
Proceeds from the maturity of marketable securities	8,018	4,667
Purchases of non-marketable investments	(636 )	) (350)
Purchases of property and equipment	(2,969 )	) (3,443)
Purchases of intangible assets	(1,000)) —
Business combinations, net of cash acquired	(243 )	) (749)
Net cash used in investing activities	(8,313 )	) (6,938)
Financing activities		
Proceeds from issuance of common stock	4,869	4,300
Taxes paid related to net share settlement of equity awards	(2,544 )	) (4,026)
Excess tax benefits from equity compensation plans	791	3,260
Employee loans extended, net of repayment	(2 )	) (2,484)
Repayment of note payable	(133 )	) (125)
Repurchases of common stock	(7,241)) —
Other	—	) (181)
Net cash provided by (used in) financing activities	(4,260 )	) 744
Effect of exchange rate changes on cash and cash equivalents	463	(115)
Net increase in cash and cash equivalents	20,519	22,310
Cash and cash equivalents at beginning of period	118,654	151,373
Cash and cash equivalents at end of period	\$ 139,173	\$ 173,683
See accompanying notes.		

Table of Contents

BARRACUDA NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Overview and Basis of Presentation

Nature of Operations

Barracuda Networks, Inc., also referred to in this report as "we," "our," "us," "Barracuda" or "the Company," is headquartered in Campbell, California, and designs and delivers powerful yet easy-to-use security and data protection solutions. We offer cloud-enabled solutions that help our customers address security threats, improve network performance and protect and store their data. Our solutions are designed to simplify IT operations for our customers, allowing them to enhance their return on technology investments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates on an ongoing basis, including those related to the fair values of stock-based awards, income taxes and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates and such differences could be material to our condensed consolidated financial position and results of operations.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP, and follow the requirements of the U.S. Securities and Exchange Commission (the "SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP are condensed or omitted. In management's opinion, the unaudited condensed financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our financial information. The results for the three and six months ended August 31, 2016 are not necessarily indicative of the results expected for the full fiscal year. The condensed consolidated balance sheet as of February 29, 2016 has been derived from audited financial statements at that date but does not include all of the information required by GAAP.

The accompanying unaudited condensed consolidated financial statements include the accounts of Barracuda Networks, Inc. and our wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and related footnotes included in our most recent Annual Report on Form 10-K. There have been no material changes in our significant accounting policies from those that were disclosed in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

Foreign Currency

For those subsidiaries whose functional currency is not the U.S. dollar, assets and liabilities are translated into U.S. dollar equivalents at the exchange rate in effect on the balance sheet date and revenues and expenses are translated into U.S. dollars using the average exchange rate over the period. Resulting currency translation adjustments are recorded in accumulated other comprehensive loss in our condensed consolidated balance sheets. We recorded net gains (losses) resulting from foreign exchange transactions of \$0.9 million and \$1.4 million for the three and six months ended August 31, 2016, respectively, and \$0.1 million and \$(0.5) million for the three and six months ended August 31, 2015, respectively. We reflect these gains and losses as a component of other income (expense), net in our condensed consolidated statements of operations.

We have foreign subsidiaries that operate and sell our products in various markets around the world. As a result, we are exposed to foreign exchange risks. We utilize foreign exchange forward contracts to manage foreign currency risk associated with foreign currency denominated monetary assets and liabilities, primarily trade receivables, and to

reduce the volatility of earnings and cash flows related to foreign currency transactions. The fair values of our contracts as of August 31, 2016 and

8

Table of Contents

February 29, 2016 were not significant. The change in the fair value of these foreign currency forward contracts is recorded as gains (losses) in other income (expense), net in our condensed consolidated statements of operations.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (the "FASB") issued an accounting standard which addresses eight cash flow classification issues. The standard update is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and early adoption is permitted, including in an interim period. If early adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Early adoption requires the adoption of all the amendments in the same period. The standard is to be applied through a retrospective transition method to each period presented. If it is impracticable to apply retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. We are currently evaluating the impact of adopting this update on our condensed consolidated statements of cash flows.

In June 2016, the FASB issued an accounting standard which requires measurement and recognition of expected credit losses for financial assets held. The standard update is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, and early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The standard is to be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently evaluating the impact of adopting this update on our condensed consolidated financial statements.

In March 2016, the FASB issued an accounting standard to simplify employee shared-based payment accounting. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years, and early adoption is permitted in any interim or annual period. If early adopted in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Early adoption requires the adoption of all the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, and forfeitures should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. We are currently evaluating the timing and the impact of adopting this update on our condensed consolidated financial statements.

In March 2016, the FASB issued an accounting standard to eliminate the requirement to retroactively adopt the equity method of accounting for an investment that qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. The standard update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. For an available-for-sale equity security that becomes qualified for the equity method of accounting, an entity is required to recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income (loss) at the date the investment becomes qualified for use of the equity method. The standard update is effective for fiscal years beginning after December 15, 2016 and interim periods within those years, and early adoption is permitted. The standard is to be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. We do not expect the adoption of this update to have a material impact on our condensed consolidated financial statements.

In February 2016, the FASB issued an accounting standard to amend lease accounting requirements and requires entities to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The new standard will require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. The standard update is effective for fiscal years beginning after December 15,

2018 and interim periods within those years, and early adoption is permitted. The standard is to be applied using a modified retrospective approach and includes a number of optional practical expedients that entities may elect to apply. We are currently evaluating the impact of adopting this update on our condensed consolidated financial statements and expect that most of our operating lease commitments will be subject to the standard update and recognized as operating lease liabilities and right-of-use assets upon the adoption.

Table of Contents

In January 2016, the FASB issued an accounting standard to enhance the reporting model for financial instruments by amending certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard update is effective for fiscal years beginning after December 15, 2017 and interim periods within those years. Early application to financial statements of fiscal years or interim periods that have not yet been issued is permitted by presenting separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if we elected to measure the liability at fair value in accordance with the fair value option for financial instruments, otherwise, early adoption is not permitted. The standard is to be applied with a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. We are currently evaluating the impact of adopting this update on our condensed consolidated financial statements.

In May 2014, the FASB issued an accounting standard which completed the joint effort by the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and improving financial reporting. The standard also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. The FASB issued subsequent amendments to the initial guidance collectively under FASB Accounting Standards Codification Topic 606. Topic 606 supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Topic 606 defines a five-step process to achieve this core principle, while more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation, among others. Topic 606 is required to be effective for us as of the first quarter of fiscal 2019 but we are allowed to early adopt as of the first quarter of fiscal 2018. The standard allows for full retrospective adoption applied to all periods presented or retrospective adoption with the cumulative effect of initially applying this update recognized at the date of initial application. We are continuing to evaluate the timing and the impact of adopting this update on our condensed consolidated financial statements and have not determined whether the effect will be material to either our revenue results or our accounting for deferred commission balances.

2. Balance Sheet Information

Cash, Cash Equivalents and Marketable Securities

Table of Contents

The following table summarizes our cash and cash equivalents by category (in thousands):

	As of August 31, 2016	As of February 29, 2016
Cash	\$83,641	\$ 60,252
Money market funds	55,532	58,402
	\$139,173	\$ 118,654

The following tables summarize our marketable securities by category (in thousands):

	As of August 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset-backed securities	\$5,009	\$ 19	\$ —	\$ 5,028
Corporate debt securities	20,848	42	(12)	20,878
Foreign government bonds	201	—	—	201
Mortgage-backed securities	1,495	—	(5)	1,490
U.S. government agency securities	8,799	2	(40)	8,761
U.S. government notes	4,040	14	(2)	4,052
	\$40,392	\$ 77	\$ (59)	\$ 40,410

	As of February 29, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset-backed securities	\$4,717	\$ 9	\$ (3)	\$ 4,723
Corporate debt securities	19,135	11	(22)	19,124
Equity securities	3,095	380	—	3,475
Foreign government bonds	205	—	—	205
Mortgage-backed securities	2,341	—	(13)	2,328
U.S. government agency securities	2,242	6	(14)	2,234
U.S. government notes	4,279	26	—	4,305
	\$36,014	\$ 432	\$ (52)	\$ 36,394

We use the specific-identification method to determine any realized gains or losses from the sale of our marketable securities classified as available-for-sale. For the three and six months ended August 31, 2016, we realized gross gains of \$0.7 million and \$1.1 million, respectively, and insignificant amounts of gross losses. For the three and six months ended August 31, 2015, realized gains and losses were insignificant. We reflect these gains and losses as a component of other income (expense), net in our condensed consolidated statements of operations.

Table of Contents

The following tables present gross unrealized losses and fair values for those marketable securities that were in an unrealized loss position aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

	As of August 31, 2016				Total Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Corporate debt securities	\$10,017	\$ (12)	\$ —	\$ —	\$10,017	\$ (12)
Mortgage-backed securities	1,373	(5)	104	(1)	1,477	(6)
U.S. government agency securities	8,149	(37)	197	(2)	8,346	(39)
U.S. government notes	1,634	(2)	—	—	1,634	(2)
	\$21,173	\$ (56)	\$ 301	\$ (3)	\$21,474	\$ (59)

	As of February 29, 2016				Total Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Asset-backed securities	\$1,788	\$ (3)	\$ —	\$ —	\$1,788	\$ (3)
Corporate debt securities	12,088	(22)	—	—	12,088	(22)
Mortgage-backed securities	1,746	(8)	385	(5)	2,131	(13)
U.S. government agency securities	887	(10)	622	(4)	1,509	(14)
	\$16,509	\$ (43)	\$ 1,007	\$ (9)	\$17,516	\$ (52)

We periodically review our marketable securities for other-than-temporary impairment. We consider factors such as the duration, severity and the reason for the decline in value, the potential recovery period and whether we intend to sell. For marketable debt securities, we also consider whether (i) it is more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis and (ii) the amortized cost basis cannot be recovered as a result of credit losses. Unrealized losses related to these investments are due to interest rate fluctuations as opposed to changes in credit quality. We do not intend to sell and it is not more likely than not that we would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity. As of August 31, 2016, we have recognized no other-than-temporary impairment loss.

Table of Contents

The following table summarizes the estimated fair value of our investments in marketable debt securities by contractual maturities (in thousands):

	As of August 31, 2016
Due in 1 year	\$8,454
Due in 1 year through 5 years	27,803
Due in 5 years through 10 years	1,274
Due after 10 years	2,879
	\$40,410

Fair Value Measurements

We determine fair value based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value assumes that the transaction to sell the asset or transfer the liability occurs in the principal or most advantageous market for the asset or liability and establishes that the fair value of an asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. The classification of a financial asset or liability within the hierarchy is based upon the lowest level input that is significant to the fair value measurement. The fair value hierarchy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3: Inputs are unobservable inputs based on our assumptions.

Cash equivalents and marketable equity securities are classified within Level 1 because they are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Marketable debt securities and derivative assets are classified within Level 2 if the investments are valued using model driven valuations which use observable inputs such as quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Our marketable securities are held by custodians who obtain investment prices from a third-party pricing provider that incorporates standard inputs in various asset price models.

We estimated the fair value of our Level 3 contingent consideration liabilities based on a weighted probability assessment of achieving the milestones related to certain of our acquisitions. Significant increases (decreases) in the probability assumptions in isolation would result in a significantly higher (lower) fair value measurement. In developing these estimates, we considered unobservable inputs that are supported by little or no market activity and reflect our own assumptions.

Table of Contents

Financial assets measured at fair value on a recurring basis are summarized below (in thousands):

	As of August 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$55,532	\$—	\$—	\$55,532
Marketable securities:				
Asset-backed securities	\$—	\$5,028	\$—	\$5,028
Corporate debt securities	\$—	\$20,878	\$—	\$20,878
Foreign government bonds	\$—	\$201	\$—	\$201
Mortgage-backed securities	\$—	\$1,490	\$—	\$1,490
U.S. government agency securities	\$—	\$8,761	\$—	\$8,761
U.S. government notes	\$—	\$4,052	\$—	\$4,052
Other accrued liabilities (current):				
Contingent consideration	\$—	\$—	\$1,160	\$1,160
Other long-term liabilities:				
Contingent consideration	\$—	\$—	\$161	\$161

	As of February 29, 2016			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$58,402	\$—	\$—	\$58,402
Marketable securities:				
Asset-backed securities	\$—	\$4,723	\$—	\$4,723
Corporate debt securities	\$—	\$19,124	\$—	\$19,124
Equity securities	\$3,475	\$—	\$—	\$3,475
Foreign government bonds	\$—	\$205	\$—	\$205
Mortgage-backed securities	\$—	\$2,328	\$—	\$2,328
U.S. government agency securities	\$—	\$2,234	\$—	\$2,234
U.S. government notes	\$—	\$4,305	\$—	\$4,305
Other accrued liabilities (current):				
Contingent consideration	\$—	\$—	\$1,160	\$1,160
Other long-term liabilities:				
Contingent consideration	\$—	\$—	\$161	\$161

Inventories, Net

Inventories, net consisted of the following (in thousands):

	As of August 31, 2016	As of February 29, 2016
Raw materials	\$3,485	\$ 2,459
Finished goods	2,840	3,659
Reserves	(579)	(470)
	\$5,746	\$ 5,648

Deferred Costs

Table of Contents

Deferred costs consisted of the following (in thousands):

	As of August 31, 2016	As of February 29, 2016
Appliance	\$39,977	\$ 41,548
Commissions	18,854	17,414
	\$58,831	\$ 58,962

Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	As of August 31, 2016	As of February 29, 2016
Land	\$9,848	\$ 9,578
Building	6,549	6,549
Computer hardware and software	28,764	26,450
Vehicles, machinery and equipment	4,789	4,711
Leasehold improvements	4,403	4,401
	54,353	51,689
Accumulated depreciation and amortization	(24,081)	(19,779)
	\$30,272	\$ 31,910

Depreciation and amortization expense related to property and equipment was \$2.3 million and \$4.7 million for the three and six months ended August 31, 2016, respectively, and \$1.7 million and \$3.3 million for the three and six months ended August 31, 2015, respectively.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) ("AOCI"), net of tax, were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for- Sale Investments	Total
Balance as of February 29, 2016	\$ (4,894)	\$ 385	\$(4,509)
Other comprehensive income (loss) before reclassifications	(374)	370	(4)
Amounts reclassified from AOCI	—	(732)	(732)
Other comprehensive loss	(374)	(362)	(736)
Balance as of August 31, 2016	\$ (5,268)	\$ 23	\$(5,245)

3. Acquisition

Sookasa, Inc.

In March 2016, we acquired Sookasa, Inc. ("Sookasa"), a provider of encryption, security, and compliance solutions for cloud-based integration partners. We acquired all of the outstanding equity interests of Sookasa for cash consideration of \$0.3 million, which included the settlement of the outstanding indebtedness of Sookasa with SVB Financial Group ("SVB"), and the issuance of 10,000 shares of our common stock to SVB in connection with such settlement. The total aggregate consideration, inclusive of cash, debt settlement and equity, was approximately \$0.4 million, of which \$0.4 million was allocated to goodwill. The goodwill is primarily attributable to the acquired assembled workforce and is not expected to be deductible for income tax purposes.

The results of operations, since the acquisition date, were not material to our condensed consolidated results of operations for the three and six months ended August 31, 2016. The following unaudited pro forma information presents the combined results of operations of Barracuda and Sookasa as if the acquisition had been completed on

March 1, 2015, the beginning of the

15

Table of Contents

comparable prior annual reporting period. The unaudited pro forma information does not reflect any cost saving synergies from operating efficiencies or the effect of the incremental costs incurred in integrating the two companies. Accordingly, this unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of what the actual results of operations of the combined company would have been if the acquisition had occurred at the beginning of the period presented, nor are they indicative of future results of operations.

Three		
Months	Six Months Ended	
Ended	August 31,	
August		
31,		
2015	2016	2015

(in thousands)

Pro forma revenue	\$78,434	\$174,595	\$156,471
Pro forma net income (loss)	\$(3,026)	\$5,137	\$(7,645)

4. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are summarized as follows (in thousands):

Balance as of February 29, 2016 \$69,595

Goodwill acquired 409

Effect of foreign exchange rates 159

Balance as of August 31, 2016 \$70,163

Intangible assets subject to amortization are summarized as follows (in thousands):

As of August 31, 2016

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Acquired developed technology	\$50,134	\$(27,989)	\$22,145
Customer relationships	19,864	(8,496)	11,368
Patents	2,999	(1,540)	1,459
Trade name	812	(318)	494
	\$73,809	\$(38,343)	\$35,466

As of February 29, 2016

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Acquired developed technology	\$50,082	\$(25,643)	\$24,439
Customer relationships	19,809	(7,313)	12,496
Patents	2,999	(1,295)	1,704
Trade name	812	(259)	553
	\$73,702	\$(34,510)	\$39,192

Certain intangible assets were removed as they were fully amortized as of the periods presented above. In addition to the above, we maintained other intangible assets not subject to amortization of \$0.2 million as of August 31, 2016 and February 29, 2016.

Amortization expense, including impairment charges, was \$1.8 million and \$3.7 million for the three and six months ended August 31, 2016, respectively, and \$0.6 million and \$1.2 million for the three and six months ended August 31, 2015, respectively.

As of August 31, 2016, amortization expense for intangible assets in future periods was as follows: \$3.6 million for the remainder of fiscal 2017, \$6.9 million for fiscal 2018, \$6.0 million for fiscal 2019, \$5.8 million for fiscal 2020, \$5.3 million for fiscal 2021 and \$7.9 million thereafter.

Table of Contents

5. Stockholders' Deficit

Stock-Based Compensation

Total stock-based compensation expense has been classified as follows in our accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2016	2015	2016	2015
Cost of revenue	\$338	\$255	\$636	\$466
Research and development	2,608	2,000	5,072	3,835
Sales and marketing	1,943	1,639	3,791	3,189
General and administrative	3,007	3,272	6,334	6,220
	\$7,896	\$7,166	\$15,833	\$13,710

Our 2012 Equity Incentive Plan (the "2012 Plan") authorizes the granting of stock options, stock appreciation rights, restricted stock and restricted stock units ("RSUs") to employees, directors and contractors. Options granted are exercisable for periods not to exceed 10 years. Options and RSUs granted typically vest over four years contingent upon employment or service with us on the vesting date.

As of August 31, 2016, net of forecasted forfeitures, there was \$12.8 million of unrecognized compensation cost related to outstanding stock options, expected to be recognized over a weighted-average period of 2.28 years, and \$49.4 million of unrecognized compensation cost related to unvested RSUs, expected to be recognized over a weighted-average period of 2.83 years. To the extent the actual forfeiture rate is different from what management has anticipated, stock-based compensation expense related to these equity awards will be different from management's expectations.

Our 2015 Employee Stock Purchase Plan (the "ESPP") allows eligible employee participants to purchase shares of our common stock at a discount through payroll deductions. The ESPP consists of offering periods that are six months in length and employees may purchase shares in each period at 85% of the lower of the Company's fair market value on the first trading day of each offering period or on the purchase date. The ESPP will continue until the earlier to occur of (i) the termination of the ESPP by our board of directors, or (ii) June 15, 2035. As of August 31, 2016, we had reserved 750,000 shares of our common stock for issuance under the ESPP and 715,230 shares remain available for future issuance.

Stock Repurchase Program

In September 2015, our board of directors authorized a stock repurchase program to repurchase shares of our common stock for an aggregate purchase price not to exceed \$50.0 million through September 30, 2017. The stock repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. Stock will be purchased from time to time, in the open market or through private transactions, subject to market condition, in compliance with applicable state and federal securities laws. The timing and amount of repurchases, if any, will depend upon several factors, including market and business conditions, the trading price of our common stock and the nature of other investment opportunities.

The following table summarizes our common stock repurchases for the periods presented (in thousands, except per share data):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2016	2015	2016	2015
Total number of shares repurchased	464	—	482	—
Dollar amount of shares repurchased	\$6,961	\$ —	\$7,241	\$ —
Average price paid per share	\$14.99	\$ —	\$15.03	\$ —
Remaining amount authorized as of the period end	\$23,543	\$ —	\$23,543	\$ —

For additional information, see "Part II — Other Information, Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds" of this Quarterly Report on Form 10-Q.

Table of Contents

6. Income Taxes

For the three and six months ended August 31, 2016, we recorded an income tax provision of \$5.2 million and \$8.5 million, respectively. For the three and six months ended August 31, 2015, we recorded an income tax provision of \$2.0 million and \$4.5 million, respectively.

In fiscal 2015, we established a valuation allowance against a significant portion of our deferred tax assets, including U.S. federal and state deferred tax assets and certain foreign deferred tax assets, because realization of these tax benefits through future taxable income did not meet the more-likely-than-not threshold. We intend to maintain the valuation allowance until sufficient positive evidence exists to support its reversal.

The difference between the income tax provision that would be derived by applying the statutory rate to our before tax income for the three and six months ended August 31, 2016 and the income tax provision actually recorded is primarily due to the temporary differences we do not expect to benefit from due to our valuation allowance, as well as non-deductible stock-based compensation expense and other currently non-deductible items.

7. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is our chief executive officer. Our chief executive officer reviews financial information presented on a consolidated basis, accompanied by information about sales by geographic region, for purposes of allocating resources and evaluating financial performance. We have one business activity and there are no segment managers who are held accountable for operations, operating results and plans for levels or components below the consolidated level. Accordingly, we have determined that we have a single reportable segment and operating unit structure.

Revenue by geographic region is presented as follows (in thousands):

	Three Months		Six Months Ended	
	Ended August 31,		August 31,	
	2016	2015	2016	2015
North America	\$65,855	\$57,027	\$130,952	\$113,068
United States	62,413	53,730	124,006	106,534
Other	3,442	3,297	6,946	6,534
Latin America	1,225	1,096	2,350	2,112
Asia-Pacific	5,235	4,850	10,284	9,505
EMEA	15,615	15,398	30,998	31,660
	\$87,930	\$78,371	\$174,584	\$156,345

8. Commitments and Contingencies

Legal Matters

On April 18, 2016, R. David Hunt, as Seller Representative of stockholders of C2C Systems Limited ("C2C"), filed a lawsuit against us in the Court of Chancery of the State of Delaware, for alleged breach of contract of the Share Purchase Agreement dated August 13, 2014, pursuant to which we acquired all of the assets and liabilities of C2C. The parties are engaged in discovery. We intend to vigorously defend this lawsuit. Given the early stage of the litigation, we are unable to estimate a possible loss or range of possible loss, if any.

On September 21, 2016, Marking Object Virtualization Intelligence, LLC filed a lawsuit against us in the United States District Court for the Eastern District of Texas, Marshall Division, alleging that certain of our products infringe U.S. patent numbers 6,802,006, 6,510,516 and 7,650,504. We have not yet responded to the complaint. We intend to vigorously defend this lawsuit. Given the early stage of the litigation, we are unable to estimate a possible loss or range of possible loss, if any.

We may, from time to time, be party to litigation and subject to claims that arise in the ordinary course of business. In addition, third parties may, from time to time, assert claims against us in the form of letters and other communications. We currently believe that these ordinary course matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows; however, the results of litigation and claims are inherently unpredictable.

Table of Contents

Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

9. Net Income (Loss) Per Share

The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended August 31, 2016		Six Months Ended August 31, 2015	
Net income (loss)	\$2,437	\$(2,239)	\$5,221	\$(6,071)
Weighted-average shares used to compute net income (loss) per share, basic	52,265	53,270	52,275	53,133
Dilutive shares from stock options and RSUs	1,056	—	813	—
Weighted-average shares used to compute net income (loss) per share, diluted	53,321	53,270	53,088	53,133
Net income (loss) per share, basic	\$0.05	\$(0.04)	\$0.10	\$(0.11)
Net income (loss) per share, diluted	\$0.05	\$(0.04)	\$0.10	\$(0.11)

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended February 29, 2016. The last day of our fiscal year is February 28/29. Our fiscal quarters end on May 31, August 31, November 30 and February 28/29. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

Overview

Barracuda designs and delivers powerful yet easy-to-use security and data protection solutions. We offer cloud-enabled solutions that empower customers to address security threats, improve network performance, and protect and store their data. Our solutions are designed to simplify IT operations for our customers, allowing them to enhance their return on technology investment. Our business model is built on the core values of speed and agility, which we apply to all aspects of our approach, including our technology innovations, the delivery and deployment of our solutions, and responses to customer inquiries.

We derive revenue from sales of appliances and subscriptions. Revenue from the sale of our appliances includes hardware and a software license. Subscription revenue is generated primarily from our subscription services such as our Barracuda Energize Updates. Subscription revenue also includes revenue from fixed term licenses of our virtual appliance software, support and maintenance. Our subscriptions include monthly and annual terms ranging from one to five years, the substantial majority of which are for one-year periods. Subscriptions are billed in advance of the purchased subscription period. Renewal rates from subscriptions, on a dollars basis, were 96% and 95% for the three and six months ended August 31, 2016, respectively, and 95% and 94% for the three and six months ended August 31, 2015, respectively. Subscription annual recurring revenue, which is the annualized dollar amount of recurring subscription revenue in the final month of the fiscal quarter, increased to \$270.1 million as of August 31, 2016 from \$220.4 million as of August 31, 2015.

The growth of our business and our future success depend on many factors, including our ability to continue to expand our customer base, pursue cross-sale opportunities and grow revenues from our existing customer base, expand our distribution channels, continue to develop new solutions to promptly respond to our customers' needs and our ability to successfully integrate acquisitions into our business, particularly Intronis, Inc. ("Intronis"). As our existing customers' IT buying needs evolve, or as our customers realize the benefits of the solutions that they previously purchased, our portfolio of solutions provides us an opportunity to cross-sell additional solutions. Customers who successfully deploy more than one type of solution provide substantially more customer lifetime value to us, and can derive greater value from our solutions as they benefit from synergies in management, support and functionality.

In addition to our cross-sell efforts, our sales and marketing initiatives are primarily focused on higher-growth segments within the security and data protection markets. Our future success will depend in part on our ability to continue to timely identify these higher-growth segments and expand our sales within them. While these areas represent significant opportunities for us, they also pose risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results.

Furthermore, our business depends on the overall demand for security and data protection solutions. Weak global economic conditions, particularly market and financial uncertainty and instability in the United States and Europe, or a reduction in security and data protection solution spending even if general economic conditions are unaffected, could adversely impact our business, financial condition and operating results in a number of ways. Additionally, we face significant competition across all of our market segments, and must continue to execute across all functions and add qualified personnel to succeed.

Our Business Model

We generally invoice at the time of sale for the total price of the solutions we deliver, and we typically collect cash in 30 to 60 days. We refer to the total amount of invoices we issue in a period as gross billings. All of the gross billings we record are recognized as revenue ratably under U.S. generally accepted accounting principles ("GAAP"), once all

revenue recognition criteria have been met. Gross billings are initially recorded as deferred revenue, less reserves. The hardware appliance component of our gross billings is recognized ratably as revenue over the estimated customer relationship period, which is typically three years, commencing upon the activation of the unit by the end customer. The subscription component of our gross billings is recognized ratably as revenue over the contractual period of the subscription. Because we typically bill in

20

Table of Contents

advance for the entire term, substantially all of our new and renewal gross billings increase our deferred revenue balance, which contributes significantly to our cash flow.

Key Metrics

We monitor the following key metrics to help us evaluate growth trends, establish budgets and assess operational efficiencies. In addition to our results determined in accordance with GAAP, we believe the following non-GAAP and operational measures are useful in evaluating our operating performance.

The following table presents our key metrics and provides reconciliations of the most directly comparable GAAP financial measure to each non-GAAP financial measure (in thousands, except active subscribers and percentages):

	Three Months Ended		Six Months Ended					
	August 31,		August 31,					
	2016	2015	2016	2015				
Gross billings	\$100,298	\$98,445	\$198,499	\$192,719				
Year-over-year percentage change	2	%	3	%				
Year-over-year percentage change on a constant currency basis ⁽¹⁾	2	%	3	%				
Adjusted EBITDA	\$24,658	\$17,655	\$42,571	\$33,446				
Adjusted EBITDA as a percentage of total revenue	28	%	23	%	24	%	21	%
Free cash flow	\$20,271	\$21,130	\$31,181	\$26,442				
Free cash flow as a percentage of total revenue	23	%	27	%	18	%	17	%
Active subscribers at period end	298,739	261,613	298,739	261,613				

In order to determine how our business performed exclusive of the effect of foreign currency fluctuations, we compare the percentage change in our gross billings from one period to another using a constant currency. To present this gross billings information, the current and comparative prior period results for entities that operate in ⁽¹⁾ other than U.S. dollars are converted into U.S. dollars at constant exchange rates. For example, the rates in effect at August 31, 2015, which was the last day of our prior fiscal year's comparable quarter, were used to convert current and comparable prior period gross billings rather than the actual exchange rates in effect during the respective period.

Gross billings. We define gross billings as total revenue plus the change in deferred revenue and other adjustments which primarily reflect returns and reserves during a particular period. We use gross billings as a performance measurement, based on our business model of invoicing our customers at the time of sale of our solutions and recognizing revenue ratably over subsequent periods. Accordingly, we believe gross billings provide valuable insight into the sales of our solutions and the performance of our business. The gross billings we record in any period reflect sales to new customers plus renewals and additional sales to existing customers adjusted for returns, rebates and other offsets, which we do not expect to be recognized as revenue in future periods. In many cases, these returns, rebates and other offsets occur in periods different from the period of sale and are unrelated to the marketing efforts leading to the initial sale, and therefore by adjusting for such offsets, we believe our computation of gross billings better reflects the effectiveness of our sales and marketing efforts.

The following table reconciles total revenue to gross billings (in thousands, except percentages):

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2016	2015	2016	2015
Total revenue	\$87,930	\$78,371	\$174,584	\$156,345
Total deferred revenue, end of period ⁽¹⁾	398,878	389,835	398,878	389,835
Less: total deferred revenue, beginning of period ⁽¹⁾	(393,072)	(381,003)	(392,774)	(372,862)
Add: deferred revenue adjustments	6,562	11,242	17,811	19,401
Total change in deferred revenue and adjustments	12,368	20,074	23,915	36,374
Gross billings	\$100,298	\$98,445	\$198,499	\$192,719
Year-over-year percentage change	2	%	3	%
Year-over-year percentage change on a constant currency basis ⁽²⁾	2	%	3	%

Table of Contents

The balances for the prior fiscal year's comparable quarters presented exclude any amounts related to the acquisition date deferred revenue assumed from C2C Systems Limited ("C2C"), which closed in the second quarter of fiscal 2015. We believe adjusting for the fair value of the assumed performance obligation allows us to better compare gross billings and adjusted EBITDA from period to period in order to assess the ongoing results of our business.

In order to determine how our business performed exclusive of the effect of foreign currency fluctuations, we compare the percentage change in our gross billings from one period to another using a constant currency. To present this gross billings information, the current and comparative prior period results for entities that operate in other than U.S. dollars are converted into U.S. dollars at constant exchange rates. For example, the rates in effect at August 31, 2015, which was the last day of our prior fiscal year's comparable quarter, were used to convert current and comparable prior period gross billings rather than the actual exchange rates in effect during the respective period.

In the three and six months ended August 31, 2016, gross billings increased 2% and 3%, respectively, over the prior year's comparable periods. The increases in gross billings were primarily driven by our continued ability to cross-sell additional solutions to existing customers and the growth in our renewal subscriptions as a result of our high level of customer retention as well as additional lead generation opportunities and associated new customer billings. For the three and six months ended August 31, 2016, increased sales of our core products, such as our NextGen Firewall and Web Application Firewall solutions, and the expansion of our MSP channel through the addition of new partners and products to our MSP platform, were the primary drivers for the increased gross billings. When evaluating our gross billings from period to period, we also evaluate our gross billings for the comparable period using a fixed exchange rate, thereby excluding the effect of currency fluctuations.

Adjusted EBITDA. We define adjusted EBITDA as net income (loss) plus non-cash and non-operating charges, which includes other expense (income), net, provision for income taxes, acquisition and other non-recurring charges, stock-based compensation expense and depreciation, amortization and impairment expense related to property and equipment and intangible assets. Because of our business model, where revenue from gross billings is recognized ratably over subsequent periods, substantially all of our gross billings increase deferred revenue. Therefore, we believe that adjusting net income (loss) for increases in deferred revenue and increases in the associated deferred costs provides another indication of profitability from our operations. We use adjusted EBITDA to measure our performance, prepare our budgets and establish metrics for variable compensation. Because adjusted EBITDA excludes certain non-cash and non-operating charges, this measure enables us to eliminate the impact of items we do not consider indicative of our core operating performance and to better measure our performance on a consistent basis from period to period.

The following table reconciles net income (loss) to adjusted EBITDA (in thousands, except percentages):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2016	2015	2016	2015
Net income (loss)	\$2,437	\$(2,239)	\$5,221	\$(6,071)
Total deferred revenue, end of period ⁽¹⁾	398,878	389,835	398,878	389,835
Less: total deferred revenue, beginning of period ⁽¹⁾	(393,072)	(381,003)	(392,774)	(372,862)
Less: total deferred costs, end of period	(58,831)	(60,214)	(58,831)	(60,214)
Total deferred costs, beginning of period	59,061	59,255	58,962	57,936
Other expense (income), net	(1,515)	(97)	(2,505)	471
Provision for income taxes	5,209	2,030	8,519	4,472
Depreciation, amortization and impairment expense ⁽²⁾	4,186	2,295	8,467	4,469
Stock-based compensation expense	7,896	7,166	15,833	13,710
Acquisition and other non-recurring charges ⁽³⁾	409	627	801	1,700
Adjusted EBITDA	\$24,658	\$17,655	\$42,571	\$33,446
Adjusted EBITDA as a percentage of total revenue	28	% 23	% 24	% 21

(1) The balances for the prior fiscal year's comparable quarters presented exclude any amounts related to the acquisition date deferred revenue assumed from C2C, which closed in the second quarter of fiscal 2015. We believe adjusting for the fair value of the assumed performance obligation allows us to better compare gross billings and adjusted EBITDA from period to period in order to assess the ongoing results of our business.

22

Table of Contents

- (2) Represents expenses for the depreciation and amortization of property and equipment and intangible assets, as well as certain losses on disposal and impairment of long-lived assets.

In calculating adjusted EBITDA and free cash flow, we also adjust for acquisition and other non-recurring charges that we do not expect to recur in our continuing operating results. We believe that adjusting for these charges

- (3) allows us to better compare adjusted EBITDA and free cash flow from period to period in order to assess the ongoing operating results of our business. Refer to the "Acquisition and Other Non-Recurring Charges" section below for additional details regarding these charges.

Adjusted EBITDA increased to \$24.7 million in the three months ended August 31, 2016 from \$17.7 million in the three months ended August 31, 2015, and increased to \$42.6 million in the six months ended August 31, 2016 from \$33.4 million in the six months ended August 31, 2015. The increases in adjusted EBITDA were primarily driven by lower sales and marketing expenses due to the timing and nature of certain marketing campaigns. We expect sales and marketing expenses to increase as we continue to introduce marketing campaigns and invest in sales resources in key focus areas, while remaining focused on profitability and optimizing our cost structure.

Free cash flow. We define free cash flow as cash provided by operating activities, less purchases of property and equipment plus acquisition and other non-recurring charges. We consider free cash flow to be a useful liquidity measure that considers the investment in cloud and corporate infrastructure required to support our business and the impact of acquisition-related expenses and other non-recurring charges. We use free cash flow to assess our business performance and evaluate the amount of cash generated by our business after adjusting for purchases of property and equipment and acquisition and other non-recurring charges.

The following table reconciles net cash provided by operating activities to free cash flow (in thousands, except percentages):

	Three Months Ended		Six Months Ended		
	August 31,		August 31,		
	2016	2015	2016	2015	
Net cash provided by operating activities	\$20,515	\$22,317	\$32,629	\$28,619	
Less: purchases of property and equipment	(1,020)	(1,567)	(2,969)	(3,443)	
Acquisition and other non-recurring charges ⁽¹⁾	776	380	1,521	1,266	
Free cash flow	\$20,271	\$21,130	\$31,181	\$26,442	
Free cash flow as a percentage of total revenue	23	% 27	% 18	% 17	%

In calculating adjusted EBITDA and free cash flow, we also adjust for acquisition and other non-recurring charges that we do not expect to recur in our continuing operating results. We believe that adjusting for these charges

- (1) allows us to better compare adjusted EBITDA and free cash flow from period to period in order to assess the ongoing operating results of our business. Refer to the "Acquisition and Other Non-Recurring Charges" section below for additional details regarding these charges.

Free cash flow decreased to \$20.3 million in the three months ended August 31, 2016 from \$21.1 million in the three months ended August 31, 2015, primarily driven by a \$1.8 million decrease in net cash provided by operating activities. Free cash flow increased to \$31.2 million in the six months ended August 31, 2016 from \$26.4 million in the six months ended August 31, 2015, driven primarily by a \$4.0 million increase in net cash provided by operating activities as we continue to incur lower sales and marketing expenses due to the timing and nature of certain marketing campaigns.

Active subscribers. We define an active subscriber as a discrete appliance, virtual appliance or cloud-only service that has activated at least one valid subscription that has not been terminated. We monitor the total number of active subscribers as a measure of the growth in our installed base, the success of our sales and marketing activities and the value that our solutions bring to our customers. As of August 31, 2016 and 2015, we had 298,739 and 261,613 active subscribers, respectively. The increase in active subscribers over these periods is primarily related to our ability to attract and acquire new customers.

Our non-GAAP measures have limitations as analytical tools and you should not consider them in isolation or as a substitute for an analysis of our results under GAAP. There are a number of limitations related to the use of these

non-GAAP financial measures versus their nearest GAAP equivalents. First, gross billings, adjusted EBITDA and free cash flow are not substitutes for total revenue, net income (loss) and cash provided by operating activities, respectively. Second, other companies may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which

Table of Contents

could reduce the usefulness of our non-GAAP financial measures as tools for comparison. Finally, adjusted EBITDA excludes some costs, namely, non-cash stock-based compensation and depreciation, amortization and impairment expenses, which are recurring. Therefore adjusted EBITDA does not reflect the non-cash impact of stock-based compensation expense or working capital needs that will continue for the foreseeable future.

Acquisition and Other Non-Recurring Charges

In calculating adjusted EBITDA and free cash flow, we also adjust for acquisition and other non-recurring charges that we do not expect to recur in our continuing operating results. We believe that adjusting for these charges allows us to better compare adjusted EBITDA and free cash flow from period to period in order to assess the ongoing operating results of our business. We refer to costs related to acquisitions and export compliance as our "acquisition and other non-recurring charges" throughout this Quarterly Report on Form 10-Q. These costs consist of the following:

Acquisition costs. Acquisition costs include the legal, valuation consulting and other expenses incurred in connection with acquisitions, the fair value remeasurements of contingent considerations, the expenses under the terms of certain acquisition and incentive agreements and other non-recurring expenses. Additionally, acquisition costs include the legal expenses incurred by us in connection with the C2C litigation matter involving R. David Hunt, as Seller Representative of stockholders of C2C, as further described in "Part II — Other Information, Item 1 - Legal Proceedings" of this Quarterly Report on Form 10-Q. These costs are classified within operating expenses in our condensed consolidated statements of operations.

Export compliance. Export compliance costs include the settlement payments and the legal expenses incurred in connection with an internal investigation of our export controls compliance procedures and the submission and final resolution of all issues associated with our voluntary self-disclosures to the U.S. government in this regard. These costs are classified as general and administrative expenses in our condensed consolidated statements of operations.

Intellectual property settlement. Intellectual property settlement costs represent the allocated charges for the resolution of any past intellectual property infringement claims and the settlement payments. These costs are classified as general and administrative expenses in our condensed consolidated statements of operations.

The following table presents the details of our acquisition and other non-recurring charges and their impact on adjusted EBITDA (in thousands):

	Three Months Ended August 31, 2016		Six Months Ended August 31, 2015	
Acquisition costs	\$409	\$622	\$790	\$1,639
Export compliance	—	5	11	61
	\$409	\$627	\$801	\$1,700

The following table presents the details of our acquisition and other non-recurring charges and their impact on free cash flow (in thousands):

	Three Months Ended August 31, 2016		Six Months Ended August 31, 2015	
Acquisition costs	\$124	\$372	\$858	\$1,202
Export compliance	—	8	11	64
Intellectual property settlement	652	—	652	—
	\$776	\$380	\$1,521	\$1,266

Components of Results of Operations**Revenue**

We generate revenue from the sales of our appliances and subscriptions.

Appliance Revenue. Revenue from the sale of our appliances includes hardware and a software license. We recognize hardware appliance revenue over the estimated customer relationship period of three years, commencing with the end-

Table of Contents

user's activation of the appliance and related subscription, provided all other criteria for the recognition of appliance revenue are met.

Subscription Revenue. Subscription revenue is generated primarily from our subscription services such as our Barracuda Energize Updates. Subscription revenue also includes revenue from fixed term licenses of our virtual appliance software, support and maintenance. Our subscription terms include monthly and annual terms ranging from one year to five years, the substantial majority of which are for one year periods. We recognize revenue from subscriptions and support and maintenance over the contractual service period.

Cost of Revenue

Cost of revenue consists of costs related to our appliance and subscription revenue. Such costs include hardware, manufacturing, shipping and logistics, customer support, warranty, personnel costs, data center costs and amortization of intangible assets related to acquired technology. We expect our cost of revenue to increase in absolute dollars, although it may fluctuate as a percentage of total revenue from period to period, as we continue to grow.

Gross Profit

Gross profit as a percentage of total revenue, or gross margin, has been and will continue to be affected by a variety of factors, including manufacturing costs, cost of technical support and the mix of our solutions sold. We expect our gross profit to fluctuate over time depending on the factors described above.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, stock-based compensation expense and travel-related expenses. Operating expenses also include allocated overhead costs for facilities, IT and depreciation. We expect operating expenses to increase in absolute dollars, although they may fluctuate as a percentage of total revenue from period to period, as we continue to grow. In particular, we expect our stock-based compensation expense to increase in absolute dollars as a result of our existing stock-based compensation expense to be recognized as options and restricted stock units ("RSUs") vest and as we issue additional stock-based awards to attract and retain employees.

Research and development. Research and development expenses consist primarily of salaries, benefits and stock-based compensation for employees and executives on our engineering and technical teams who are responsible for increasing the functionality and enhancing the ease-of-use of our appliance and subscription services, as well as the development of new products. We expense our research and development costs as they are incurred. We expect research and development expenses to increase in absolute dollars as we continue to invest in our future solutions, although our research and development expenses may fluctuate as a percentage of total revenue.

Sales and marketing. Our sales and marketing expenses consist primarily of advertising, as well as salaries, commissions, benefits and stock-based compensation for our employees and executives engaged in sales, sales support, marketing, business development and customer service functions. Our advertising expenses include the costs of cooperative marketing programs developed with our channel partners and other marketing programs such as online lead generation, promotional events and web seminars. We market and sell our subscription services worldwide through our sales organization and distribution channels, such as strategic resellers and distributors. We capitalize and amortize the direct and incremental portion of our sales commissions over the period the related revenue is recognized. We expect sales and marketing expenses to increase in absolute dollars as we continue to introduce marketing campaigns and invest in sales resources in key focus areas, although our sales and marketing expenses may fluctuate as a percentage of total revenue.

General and administrative. Our general and administrative expenses consist primarily of salaries, benefits and stock-based compensation for our finance, legal, regulatory and compliance, human resources and other administrative employees and executives. In addition, general and administrative expenses include outside consulting, legal and accounting services and facilities and other supporting overhead costs. We expect general and administrative expenses to increase in absolute dollars due to accounting, insurance, investor relations and other costs associated with being a public company, although our general and administrative expenses may fluctuate as a percentage of total revenue.

Other Income (Expense), Net

Table of Contents

Other income (expense), net consists primarily of foreign exchange gains and losses, interest expense on our outstanding debt, and interest income earned on our cash, cash equivalents and marketable securities, as well as realized gains and losses from our marketable securities portfolio. We expect interest income will vary each reporting period depending on our average investment balances during the period, types and mix of investments and market interest rates.

Provision for Income Taxes

Our provision for income taxes consists primarily of federal and state income taxes in the United States and income taxes in foreign jurisdictions in which we conduct business. We estimate income taxes in each of the jurisdictions in which we operate. This process involves determining income tax expense together with calculating the deferred income tax expense related to temporary differences resulting from the differing treatment of items for tax and accounting purposes. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. These temporary differences result in deferred tax assets and liabilities, which are included within our condensed consolidated balance sheets. Deferred tax assets are recognized for deductible temporary differences, along with net operating loss and credits carryforwards, if it is more likely than not that the tax benefits will be realized.

Results of Operations

Comparison of the Three Months Ended August 31, 2016 and 2015

The following table summarizes our condensed consolidated results of operations for the periods presented and as a percentage of our total revenue for those periods (dollars in thousands):

	Three Months Ended August 31,					
	2016	% of Total Revenue	2015	% of Total Revenue	Change	
Revenue:						
Appliance	\$21,034	24 %	\$22,288	28 %	\$(1,254)	
Subscription	66,896	76	56,083	72	10,813	
Total revenue	87,930	100	78,371	100	9,559	
Cost of revenue	20,240	23	15,935	20	4,305	
Gross profit	67,690	77	62,436	80	5,254	
Operating expenses:						
Research and development	18,446	21	17,502	22	944	
Sales and marketing	32,144	37	34,470	44	(2,326)	
General and administrative	10,969	12	10,770	14	199	
Total operating expenses	61,559	70	62,742	80	(1,183)	
Income (loss) from operations	6,131	7	(306)	—	6,437	
Other income, net	1,515	2	97	—	1,418	
Income (loss) before income taxes	7,646	9	(209)	—	7,855	
Provision for income taxes	(5,209)	(6)	(2,030)	(3)	(3,179)	
Net income (loss)	\$2,437	3 %	\$(2,239)	(3)%	\$4,676	

Revenue

Total revenue increased \$9.6 million, or 12%, for the three months ended August 31, 2016 compared to the three months ended August 31, 2015. Subscription revenue increased by \$10.8 million, or 19%, primarily driven by the inclusion of revenue from Intronis, which was acquired in October 2015, and an increase in active subscribers during the period of 37,126, or 14%, from 261,613 active subscribers as of August 31, 2015 to 298,739 active subscribers as of August 31, 2016. The increase in active subscribers was primarily driven by our high level of customer retention and an increase in the number of customers purchasing subscriptions from us. Total appliance revenue decreased by \$1.3 million, or 6%, primarily due to the continuing shift by our customers from traditional and solely on-premises deployments to include the cloud, which includes hybrid network architectures, public and/or private clouds,

software-as-a-service applications and managed service solutions.

26

Table of Contents

Cost of Revenue and Gross Margin

Cost of revenue increased \$4.3 million, or 27%, for the three months ended August 31, 2016 compared to the three months ended August 31, 2015 commensurate with the increase in total revenue for the comparable periods. Gross margin decreased from 80% for the three months ended August 31, 2015 to 77% for the three months ended August 31, 2016, primarily due to product mix shifts and increased service delivery costs, warranty costs, amortization of intangible assets and depreciation expenses primarily related to our Intronis acquisition. Additionally, our gross margin is generally impacted by the timing of investments in our data center infrastructure and our technical support.

Operating Expenses

Research and development expenses increased \$0.9 million, or 5%, for the three months ended August 31, 2016 compared to the three months ended August 31, 2015, primarily due to increases of \$0.6 million in stock-based compensation expense, \$0.6 million in consulting costs and \$0.4 million in compensation and personnel costs, primarily attributable to additional headcount associated with recent acquisitions and higher compensation rates, partially offset by decreases of \$0.3 million in travel and other related costs, \$0.1 million in internal use development equipment and services, \$0.1 million in IT-related infrastructure expenses and \$0.1 million in license and service fees. As a percentage of total revenue, research and development expenses remained relatively consistent for the comparable period.

Sales and marketing expenses decreased \$2.3 million, or 7%, for the three months ended August 31, 2016 compared to the three months ended August 31, 2015, primarily due to decreases of \$3.6 million in marketing and channel partner program expenses, primarily attributable to lower search engine marketing expenditures, and \$0.4 million in travel and other related costs, partially offset by increases of \$0.7 million in compensation and personnel costs, primarily attributable to additional headcount associated with recent acquisitions, \$0.4 million in amortization expense of intangible assets, \$0.3 million in stock-based compensation expense and \$0.2 million in consulting costs. As a percentage of total revenue, sales and marketing expenses decreased for the comparable period primarily due to the timing and nature of marketing campaigns. We expect sales and marketing expenses to increase for the remainder of fiscal 2017 as we introduce new marketing campaigns and invest in sales resources in key focus areas, which may increase sales and marketing expenses as a percentage of total revenue.

General and administrative expenses increased \$0.2 million, or 2%, for the three months ended August 31, 2016 compared to the three months ended August 31, 2015. As a percentage of total revenue, general and administrative expenses remained relatively consistent for the comparable period.

Other Income, Net

The change in other income, net was primarily due to an increase in net foreign exchange gains of \$0.7 million and an increase in realized gains from the sale of marketable securities of \$0.7 million during the three months ended August 31, 2016 compared to the three months ended August 31, 2015.

Provision for Income Taxes

We recorded an income tax provision of \$5.2 million for the three months ended August 31, 2016. The difference between the income tax provision that would be derived by applying the statutory rate to our before tax income for the three months ended August 31, 2016 and the income tax provision actually recorded is primarily due to the temporary differences we do not expect to benefit from due to our valuation allowance, as well as non-deductible stock-based compensation expense and other currently non-deductible items. For the three months ended August 31, 2015, we recorded an income tax provision of \$2.0 million.

Table of Contents

Comparison of the Six Months Ended August 31, 2016 and 2015

The following table summarizes our condensed consolidated results of operations for the periods presented and as a percentage of our total revenue for those periods (dollars in thousands):

	Six Months Ended August 31,					
	2016	% of Total Revenue	2015	% of Total Revenue	Change	
Revenue:						
Appliance	\$42,367	24 %	\$45,970	29 %	\$(3,603)	
Subscription	132,217	76	110,375	71	21,842	
Total revenue	174,584	100	156,345	100	18,239	
Cost of revenue	40,481	23	31,901	20	8,580	
Gross profit	134,103	77	124,444	80	9,659	
Operating expenses:						
Research and development	37,653	22	35,502	23	2,151	
Sales and marketing	63,474	36	68,602	44	(5,128)	
General and administrative	21,741	12	21,468	14	273	
Total operating expenses	122,868	70	125,572	81	(2,704)	
Income (loss) from operations	11,235	7	(1,128)	(1)	12,363	
Other income (expense), net	2,505	1	(471)	—	2,976	
Income (loss) before income taxes	13,740	8	(1,599)	(1)	15,339	
Provision for income taxes	(8,519)	(5)	(4,472)	(3)	(4,047)	
Net income (loss)	\$5,221	3 %	\$(6,071)	(4)%	\$11,292	

Revenue

Total revenue increased \$18.2 million, or 12%, for the six months ended August 31, 2016 compared to the six months ended August 31, 2015. Subscription revenue increased by \$21.8 million, or 20%, primarily due to an increase in active subscribers during the period of 37,126, or 14%, from 261,613 active subscribers as of August 31, 2015 to 298,739 active subscribers as of August 31, 2016. This increase primarily resulted from our high level of customer retention and an increase in the number of customers purchasing subscriptions. Total appliance revenue decreased by \$3.6 million, or 8%, primarily due to the continuing shift by our customers from traditional and solely on-premises deployments to include the cloud, which includes hybrid network architectures, public and/or private clouds, software-as-a-service applications and managed service solutions.

Cost of Revenue and Gross Margin

Cost of revenue increased \$8.6 million, or 27%, for the six months ended August 31, 2016 compared to the six months ended August 31, 2015 commensurate with the increase in total revenue for the comparable periods. Gross margin decreased from 80% for the six months ended August 31, 2015 to 77% for the six months ended August 31, 2016, primarily due to product mix shifts and increased service delivery costs, warranty costs, amortization of intangible assets and depreciation expenses primarily related to our Intronis acquisition. Additionally, our gross margin is generally impacted by the timing of investments in our data center infrastructure and our technical support.

Operating Expenses

Research and development expenses increased \$2.2 million, or 6%, for the six months ended August 31, 2016 compared to the six months ended August 31, 2015, primarily due to increases of \$1.4 million in consulting costs, \$1.2 million in stock-based compensation expense and \$0.5 million in compensation and personnel related costs, primarily attributable to additional headcount associated with recent acquisitions and higher compensation rates, partially offset by decreases of \$0.5 million in travel and other related costs, \$0.2 million in internal use development equipment and service and \$0.2 million in IT-related infrastructure expenses. As a percentage of total revenue, research and development expenses remained relatively consistent for the comparable period.

Table of Contents

Sales and marketing expenses decreased \$5.1 million, or 7%, for the six months ended August 31, 2016 compared to the six months ended August 31, 2015, primarily due to decreases of \$9.0 million in marketing and channel partner program expenses, primarily attributable to lower search engine marketing expenditures and event and trade show costs, and \$0.6 million in travel and other related costs, partially offset by increases of \$2.6 million in compensation and personnel costs, primarily attributable to additional headcount associated with recent acquisitions, \$0.8 million in amortization expense of intangible assets, \$0.6 million in stock-based compensation expense and \$0.2 million in consulting costs. As a percentage of total revenue, sales and marketing expenses decreased for the comparable period mainly due to the timing and nature of marketing campaigns. We expect sales and marketing expenses to increase for the remainder of fiscal 2017 as we introduce new marketing campaigns and invest in sales resources in key focus areas, which may increase sales and marketing expenses as a percentage of total revenue.

General and administrative expenses increased \$0.3 million, or 1%, for the six months ended August 31, 2016 compared to the six months ended August 31, 2015. As a percentage of total revenue, general and administrative expenses remained relatively consistent for the comparable period.

Other Income (Expense), Net

The change in other income (expense), net was primarily due to an increase in net foreign exchange gains of \$1.8 million and an increase in realized gains from the sale of marketable securities of \$1.1 million during the six months ended August 31, 2016 compared to the six months ended August 31, 2015.

Provision for Income Taxes

We recorded an income tax provision of \$8.5 million for the six months ended August 31, 2016. The difference between the income tax provision that would be derived by applying the statutory rate to our before-tax income for the six months ended August 31, 2016 and the income tax provision actually recorded is primarily due to the temporary differences we do not expect to benefit from due to our valuation allowance, as well as non-deductible stock-based compensation expense and other currently non-deductible items. For the six months ended August 31, 2015, we recorded an income tax provision of \$4.5 million.

Liquidity and Capital Resources

Six Months Ended
August 31,
2016 2015

(in thousands)

Net cash provided by operating activities	\$32,629	\$28,619
Net cash used in investing activities	\$(8,313)	\$(6,938)
Net cash provided by (used in) financing activities	\$(4,260)	\$744

As of August 31, 2016, we had cash and cash equivalents of \$139.2 million, of which approximately \$10.1 million was held outside of the United States and not presently available to fund domestic operations and obligations. In addition, we held marketable securities of \$40.4 million as of August 31, 2016. If we were to repatriate cash held outside of the United States, it could be subject to U.S. income taxes, less any previously paid foreign income taxes. Furthermore, we have a \$25.0 million credit facility with Silicon Valley Bank which expires in November 2016. The credit facility includes an option to request an increase of the available funds to \$50.0 million and is secured by a security interest on substantially all of our assets and contains restrictive covenants. Upon drawing the credit facility, the financial covenants will require us to maintain a minimum adjusted EBITDA, as defined in the credit facility, and a minimum adjusted quick ratio. The credit facility also sets forth specified events of default. No amounts had been drawn under the credit facility through August 31, 2016.

We believe that our existing cash, cash equivalents and marketable securities, our available credit facility and net cash provided by operating activities will be sufficient to meet our working capital and capital expenditure requirements, as well as to fund any principal and interest payments on notes payable and repurchases of our common stock, for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced solutions and service offerings and the continuing market acceptance of our

solutions. In the event that additional financing is

29

Table of Contents

required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

In addition, as described in "Legal Proceedings" included in Part II, Item 1 of this Quarterly Report on Form 10-Q, we are currently involved in ongoing litigation. Any adverse settlements or judgments in any litigation could have a material adverse impact on our results of operations, cash balances and cash flows in the period in which such events occur.

Operating Activities

Our primary source of cash from operating activities has been from cash collections from our customers. We expect cash inflows from operating activities to be affected by increases in sales and timing of collections. Our primary uses of cash from operating activities have been for personnel costs and investment in sales and marketing and research and development infrastructure. We expect cash outflows from operating activities to be affected by increases in sales and increases in personnel costs as we grow our business.

For the six months ended August 31, 2016, operating activities provided \$32.6 million in cash primarily due to non-cash charges of \$24.3 million related to stock-based compensation, depreciation and amortization expenses, our consolidated net income of \$5.2 million and a positive change of \$4.2 million in our net operating assets and liabilities.

For the six months ended August 31, 2015, operating activities provided \$28.6 million in cash primarily due to a positive change of \$18.9 million in our net operating assets and liabilities and non-cash charges of \$18.2 million related to stock-based compensation, depreciation and amortization expenses, partially offset by our consolidated net loss of \$6.1 million and excess tax benefits from equity compensation plans of \$3.3 million.

Investing Activities

Our investing activities have generally consisted of transactions related to marketable and non-marketable securities, purchases of property and equipment, and activity in connection with acquisitions. We expect to continue to purchase property and equipment to support the continued growth of our business as well as continue to invest in our data center infrastructure.

Cash used in investing activities of \$8.3 million in the six months ended August 31, 2016 was primarily related to purchases of marketable securities of \$21.8 million, property and equipment of \$3.0 million, intangible assets of \$1.0 million and non-marketable investments of \$0.6 million, partially offset by proceeds from the sale and maturity of certain marketable securities of \$18.3 million.

Cash used in investing activities of \$6.9 million in the six months ended August 31, 2015 was primarily related to purchases of marketable securities of \$14.2 million, property and equipment of \$3.4 million, acquisition related payments of \$0.7 million and investments of \$0.4 million in non-marketable securities, partially offset by proceeds from the sale and maturity of certain marketable securities of \$11.8 million.

Our annual capital expenditures generally have varied between approximately 2% and 5% of annual total revenue. We believe future capital expenditures are likely to be consistent with historical experience with variations above or below the range depending upon specific strategic opportunities.

Financing Activities

Our financing activities generally consist of equity related transactions, including proceeds from the exercises of employee stock options, excess tax benefits from equity incentive plans and tax payments associated with the net share settlements of equity awards, and repurchases of common stock.

For the six months ended August 31, 2016, financing activities used \$4.3 million in cash primarily related to repurchases of our common stock of \$7.2 million and tax payments related to \$2.5 million of net share settlements of equity awards, partially offset by proceeds from stock option exercises of \$4.9 million.

For the six months ended August 31, 2015, financing activities provided \$0.7 million in cash primarily from various equity related transactions, including proceeds from stock option exercises of \$4.3 million and excess tax benefits from equity compensation plans of \$3.3 million. These cash inflows were partially offset by tax payments related to \$4.0 million of net share settlements of equity awards and payments of \$2.5 million related to remittances to tax authorities for employee equity transactions.

Table of Contents

Contractual Obligations and Commitments

There have been no material changes outside the ordinary course of our business in the contractual obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

Off-Balance Sheet Arrangements

As of August 31, 2016, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There have been no significant changes to our critical accounting policies and estimates as disclosed in our Annual Report on Form 10-K for the fiscal year ended February 29, 2016.

JOBS Act Accounting Election

We are an "emerging growth company," as defined in the Jumpstart Our Business Startup Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Recent Accounting Pronouncements

Refer to "Recent Accounting Pronouncements" in Note 1 to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The market risk exposures described in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016 have not changed materially during the six months ended August 31, 2016.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Management, with the participation of our chief executive officer ("CEO") and our chief financial officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible

Table of Contents

controls and procedures. Based on the evaluation of our disclosure controls and procedures as of August 31, 2016, our CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 and 15d-15 of the Exchange Act that occurred during the quarter ended August 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On April 18, 2016, R. David Hunt, as Seller Representative of stockholders of C2C Systems Limited ("C2C"), filed a lawsuit against us in the Court of Chancery of the State of Delaware, for alleged breach of contract of the Share Purchase Agreement dated August 13, 2014, pursuant to which we acquired all of the assets and liabilities of C2C. The parties are engaged in discovery. We intend to vigorously defend this lawsuit. Given the early stage of the litigation, we are unable to estimate a possible loss or range of possible loss, if any.

On September 21, 2016, Marking Object Virtualization Intelligence, LLC filed a lawsuit against us in the United States District Court for the Eastern District of Texas, Marshall Division, alleging that certain of our products infringe U.S. patent numbers 6,802,006, 6,510,516 and 7,650,504. We have not yet responded to the complaint. We intend to vigorously defend this lawsuit. Given the early stage of the litigation, we are unable to estimate a possible loss or range of possible loss, if any.

We may, from time to time, be party to litigation and subject to claims that arise in the ordinary course of business. In addition, third parties may, from time to time, assert claims against us in the form of letters and other communications. We currently believe that these ordinary course matters will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows; however, the results of litigation and claims are inherently unpredictable. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the price of our common stock could decline. You should carefully consider the risks and uncertainties described in our most recent Annual Report on Form 10-K, together with all of the other information in this Quarterly Report on Form 10-Q, before making a decision to invest in our common stock.

A description of the risks associated with our business, financial condition, and results of operations is set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended February 29, 2016. There have been no material changes in our risks from such description.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) Sale of Unregistered Securities

Not applicable.

b) Issuer Purchases of Equity Securities

In September 2015, our board of directors authorized a stock repurchase program. Under the program, we are authorized to repurchase shares of our common stock for an aggregate purchase price not to exceed \$50.0 million through September 30, 2017. We began repurchasing common stock in the third quarter of fiscal 2016 and no shares were purchased other than through our stock repurchase program.

Table of Contents

The following table summarizes all stock repurchases under our publicly announced stock repurchase program for the periods presented (in thousands, except per share data):

	Total Number of Shares	Average Price Paid per Share	Maximum Dollar Value of Shares That May Yet Be Purchased Under Our Program
June 1, 2016 to June 30, 2016	356	\$ 15.06	\$ 25,132
July 1, 2016 to July 31, 2016	108	\$ 14.76	\$ 23,543
August 1, 2016 to August 31, 2016	—	\$ —	\$ 23,543
	464	\$ 14.99	

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BARRACUDA NETWORKS,
INC.

Date: October 11, 2016 By: /s/ William D. Jenkins, Jr.
William D. Jenkins, Jr.
Chief Executive Officer
(Principal Executive Officer)

Date: October 11, 2016 By: /s/ Dustin Driggs
Dustin Driggs
Chief Financial Officer
(Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any *filing of Barracuda Networks, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.